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Hurricane Energy: is this a buying opportunity?

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Every now and then a small stock with a big story captures the investing public's imagination. Without a doubt, Hurricane Energy has a big story to tell. In fact, the stock has reached near 'cult status' in a very short space of time. Despite feeling like an overnight success, it's taken well over a decade for Hurricane Energy to get to this point. Like any meteoric rise to cult status the room to fall also becomes clear and with recent developments hitting the shares, does that now make it a buy or time to exit?

Hidden in the basement

The company was founded back in 2005 by Dr Robert Trice with a belief that 'fractured basement reservoirs' could be a significant untapped resource.

Basement rock sits beneath the traditional oil producing source rock. Most oil fields worldwide have tended to terminate drilling once the source rock has been penetrated. However, this has left behind a potentially large untapped resource sitting in the basement layer below.

The basement layer can naturally contain huge structures of fractured rock that are able to trap significant volumes of oil.

It is estimated that fractured basement reservoirs contain around 20% of the world's remaining oil and gas resources.

Many countries have already successfully exploited basement reservoirs including the USA, Brazil, Venezuela, Morocco, Libya, Algeria, Egypt and Vietnam. However, the UK has been late to the party.

Until Hurricane came along there had been no targeted efforts for oil in basement reservoirs despite the fact that several discoveries had been previously made by accident.

Small team, Big dream

Hurricane currently employs only a small team of experienced specialists and utilises contractors to carry out a lot of the engineering and development work.

Hurricane is led by its founder and CEO, Dr Robert Trice, who gained most of his geological experience at Enterprise Oil and Shell and is a leading expert in fractured basement geology.

Reassuringly, he comes across as an engineer rather than a polished salesman - there's been far too many of those over the years, particularly on AIM listed resource stocks. In fact, Dr. Trice still get his hands dirty, basing himself out at the rig a lot of the time, rather than sat behind a mahogany desk.

The Board also includes some big hitting non-execs including the former Chief Geologist of BP and ex Finance Director of Premier Oil.

Exploration niche

Hurricane's management recognised the potential of this new 'exploration niche' and so set about acquiring a series of basement prospective licences in the UK Continental Shelf (UKCS).



Initial efforts concentrated on acreage in the West of Shetlands, where historical studies indicated the presence of oil in the basement layer.

In 2006 the Company's first drilling effort, the Wellington sandstone prospect, came up dry. Undeterred, the Company continued to add to its licence portfolio.

2009 marked a key turning point for the Company after it discovered oil at its flagship Lancaster well. This paved the way to raise more money to pay for further drilling.

While much of the focus has been on its first discovery, Lancaster, Hurricane has made two other potentially massive discoveries.

Its second basement discovery was Whirlwind, a large structure approximately 2km deeper than Lancaster and is thought to contain in excess of 200 million barrels.

Hurricane's third basement discovery is Lincoln. Initial analysis has indicated that the well could hold 250 million barrels.

Stepping up

Having proved its model, in February 2014, Hurricane pressed ahead with a stock market listing on AIM at 43p a share and was able to raise nearly £50m.

The timing was fortunate. The Oil Price Crash of 2014 was less than 5 months away. In the space of a year-and-a-half, the oil price plummeted from over \$100 a barrel to around \$30. It would claim a lot of casualties and investment in the sector all.

For Hurricane, there was a silver lining. The lack of investment spending across the oil and gas sector meant top notch equipment could be accessed at knock down prices. Hurricane was able to secure Transocean's prized Spitsbergen drilling rig for most of 2016 at under half the normal rate.

The more Lancaster has been probed, the larger it gets. Estimates are now over 500m barrels of oil, up from 207m barrels forecast by the competent person's report (CPR) published in 2014.

As the expression goes "small fields get smaller, big fields get bigger."

In fact, Dr Trice has a theory that Lancaster and Halifax are part of the same Hydrocarbon Accumulation despite being 30km apart. If proven correct, it would make the discovery "the largest undeveloped discovery on the UK Continental Shelf."

Current Assets and Licences

Hurricane's assets are focussed on the Rona Ridge to the west of the Shetland islands on the UK Continental Shelf region.

Greater Lancaster Area

Lancaster - Discovered in 2009 Hurricane is implementing a phased development on Lancaster using the two horizontal wells drilled on the structure. The first phase of the development, the Early Production System (EPS), came on stream in June 2019.

Halifax - Situated on the Rona Ridge north east of the Lancaster field. The company has the view that both Lancaster and Halifax have the potential to be part of a single large accumulation.



Greater Warwick Area

Warwick / Lincoln - Hurricane has a 50% interest in this licence following Spirit Energy's farm-in to 50% in September 2018.

Lincoln - The Lincoln discovery sits on the southwest limb of the Rona Ridge. It is deeper than Lancaster and separated from it by the Brynhild Fault Zone.

Other Interests

Whirlwind - Whirlwind is a large, low-relief structure approximately 10km north of Lancaster, and was the second basement prospect to be drilled by Hurricane, proving to be another large discovery.

Strathmore - Strathmore is an undeveloped oil field that was discovered in 1990. Unlike Hurricane's other assets, Strathmore is a sandstone reservoir, not a fractured basement reservoir. Hurricane has a 100% interest in this licence

Recent Developments

Warwick Deep Shut down

Recent news has impacted the share price considerably and despite the pre-drill estimates suggesting up to 900m barrels they have now moved to plug and abandon the well as it cannot be considered suitable for future production.

The company completed a farm-out deal last year involving the sale of 50% of its Greater Warwick Area to Spirit Energy, who is covering the cost of the campaign.

Despite this outcome focus now shifts to the next well, Lincoln Crestal. This is now the preferred tie-back candidate for the Lancaster field. The second well in the three-well programme. Lancaster EPS (early production system) production operations remain in-line with guidance."

But it's not all bad news....

First revenues generated

The first tanker load of oil has come out of the Lancaster field after the firm reported that they have received the first of the oil from the project. The Amundsen Spirit shuttle tanker has now lifted that oil from the Aoka Mizu (Floating Production Storage and Offloading or FPSO installation) and is taking it back to Rotterdam. It will be refined and sold on by its new owner. BP Oil International marketed the cargo, as per the terms of the offtake agreement.

"First lifting from the Lancaster EPS marks the generation of Hurricane's first revenue," said chief executive Robert Trice.

"We are now building the cash flow necessary to invest in the further appraisal and development of Hurricane's basement assets."

EPS Ramping up

With oil now being produced from the EPS (early production system) development at Lancaster field this has given Hurricane a better understanding of the project and has intern led to the company looking to ramp up production at this facility.



The plan is for the EPS to produce around 9,000 barrels of oil per day or bopd for the first three months before increasing that to 13,000 bopd in the next three-month period.

After that, Hurricane expects to be producing nearer to 17,000 bopd, which is about 85% of total capacity and the long-held target for the EPS.

Summary

Make no mistake oil and gas exploration is a fickle sector and stock prices can move very quickly especially off the back of news flow. Technical analysis unfortunately can be lacking in this area due to the news driven share price. The recent news flow has certainly impacted the share price, which is not surprising as a lot of optimism was built into the price off the back of the prospects at the Warwick deep well.

That all being said this comes as part and parcel of oil and gas exploration and if you don't have the appetite for this kind of fluctuation then you shouldn't be invested in the sector. I tend to view investing in the sector as a high-risk proposition and a minim portfolio view should be taken. So rather than investing your full amount into one and being at the mercy of the news flow on that one company, instead look at four or five and spreading out your investments equally across the piece.

As far as Hurricane is concerned, I do still believe the long term prospects are very appealing and the short term reversion lower on the share price will no doubt grab attention. Fair warning to potential investors, be aware of the risks in this sector, understand the triggers to drive the prices and ensure you are diversified.

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